

EXPORT COMPETITIVENESS OF MALAYSIA'S PROCESSED FOOD

BY

LEE MUN SAM

Project Paper Submitted in Partial Fulfillment of the Requirement for the
Degree of Master of Business Administration

Open University Malaysia

2007

Digital Library OUM



0037356

TABLE OF CONTENTS

	Page
Abstract	ii
Abstrak	iii
Acknowledgements	iv
Approval	v
Declaration	vi
List of tables	vii
List of figures	viii
1. INTRODUCTION	
1.1 Asia Showing the Biggest Shift to Processed Food	1
1.2 Definition of Processed Food	2
1.3 The Malaysian Factor	4
1.4 Exports Drive Economy	6
1.5 Malaysia's Prospering Processed Food Industry	8
1.6 Problem Statement	10
1.7 Research Objectives	11
1.8 Significance of Study	12
2. LITERATURE REVIEW	
2.1 South East Asia Processed Food	13
2.2 Discussion	25
2.3 Summary	26
3. METHODOLOGY	
3.1 Market Potential	29
3.2 Constant Market Share Analysis	31
3.3 Revealed Comparative Advantage	33
3.3.1 Net Export/Total Trade Ratio	33
3.3.2 Export Performance Ratio	34
3.4 Data Source	34
3.5 Types of Data	37
3.6 Limitation of Study	28
4. ANALYSIS AND RESULTS	
4.1 CMS Analysis	41
4.1.1 Snacks	41

4.1.2	Beverages	44
4.1.3	Spices	44
4.1.4	Sauces	47
4.1.5	Cookies	47
4.2	Revealed Comparative Advantage	50
4.2.1	Net Export/Total Trade Ratio	50
4.2.2	Export Performance Ratio	60

5. DISCUSSION

5.1	Demographics & Psychographic	65
5.2	Market Potential	67
5.3	Processed Food Trade Pressure by Evolving Global Supply Chains	70
5.4	Shifting Preferences Shape Supply Chains	71
5.5	Supermarkets Change Industry Structure in Developing Countries	72
5.6	Private Brands Ensure Quality but Restrain Trade	74
5.7	Trade Rules May Deter Some Processed Food-Product Trade	75
5.8	Reinventing Food Processing Industry in Malaysia	77
5.8.1	Gearing Up to Boost Competitiveness	79
5.9	Scale, Efficiency through Competition and Growth	80

6. SUMMARY, CONCLUSION AND POLICY RECOMMENDATION

6.1	In the Nutshell	82
6.2	Policy Recommendation	83
6.3	Present and Future Challenges	84
6.4	Potential Future Research	85

REFERENCES	87
APPENDICES	90

ABSTRACT

This study attempts to determine the competitiveness of Malaysia's processed food using the Constant Market Share Analysis (CMS) and Revealed Comparative Advantages (RCA) approaches. The types of processed food which were examined were snacks, beverages, cookies, sauces and spices. CMS analysis had shown that except beverages, snacks, cookies, sauces and spices exports were due to market demand. Export of beverages was due to competitive effect which implied that the beverages industry players were sufficiently competent to be able to penetrate into this market. Spices and cookies exhibited comparative advantage during the study period, while beverages and sauces performances had been improving. Snacks did not portray its comparative advantage during the study period. However, it is exhibiting an upward trend in performance. Several policies need to be addressed for most food categories, while understanding the dynamism of industrial trend is recommended. Opportunities are vast, and it is important for industrial players to formulate its growth strategy based on this. For Malaysia, government will play an extensive role in facilitating trade, while industrial players need to be focused on core competencies in order to penetrate the global market.

LIST OF TABLES

	Page
Table 1.1 Main Export Destinations for Malaysia's Processed Food	8
Table 2.1 Summary of Literature Reviews	26
Table 3.1 Processed Food Category and SITC Codes	35
Table 3.2 Export of Processed Food (1981-2005)	39
Table 4.1 Decomposition of Snacks Export Gain/Loss Between Periods	43
Table 4.2 Decomposition of Beverages Export Gain/Loss Between Periods	45
Table 4.3 Decomposition of Spices Export Gain/Loss Between Periods	46
Table 4.4 Decomposition of Sauces Export Gain/Loss Between Periods	48
Table 4.5 Decomposition of Cookies Export Gain/Loss Between Periods	49
Table 4.6 Net Export/Total Trade Ratio of Snack, Beverages & Spices 1981 – 2005	51
Table 4.7 Net Export/Total Trade Ratio of Sauces & Cookies 1981 – 2005	54
Table 4.8 Export Performance Ratio of Processed food, 1981 – 2005	62
Table 5.1 Malaysia's Demographic and Psychographic in Relation to Food	66
Table 5.2 Growth of Supermarkets Share in Retails Sales	73
Table 5.3 Tariff Escalation in Cocoa & Products	76

LIST OF FIGURES

	Page
Figure 1.1 Malaysia's Export by Major Destination, Monthly Trend, 2001 to May 2007	5
Figure 1.2 Malaysia Trade with the World	6
Figure 1.3 Malaysia Consumer Price Index	7
Figure 1.4 Index of Total and Per Capita Food	10
Figure 3.1 Schematic Representation of the CMS Model	30
Figure 4.1 Net Export/Total Trade Ratio for Snacks, 1981 - 2005	50
Figure 4.2 Net Export/Total Trade Ratio for Beverages, 1981 - 2005	57
Figure 4.3 Net Export/Total Trade Ratio for Spices, 1981 - 2005	58
Figure 4.4 Net Export/Total Trade Ratio for Sauces, 1981 - 2005	59
Figure 4.5 Net Export/Total Trade Ratio for Cookies, 1981 - 2005	59
Figure 4.6 Export Performance Ratio Trend for Malaysia Processed Food, 1981 - 2005	60
Figure 5.1 World Trade in Processed Food Slowed in the 1990s	71
Figure 5.2 Annual Retail Food Sales Grow Faster in Developing Countries	72